

## Can a Tax-Exempt Organization Have Business Income?



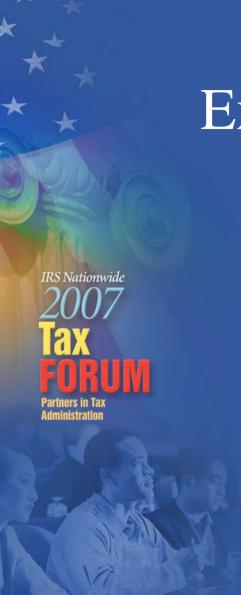
#### Unrelated Business Income

- Trade or Business
  - Carried on for production of income
- Regularly Carried On
  - Exhibits frequency & continuity
- Not substantially related to exempt purpose
  - Does not contribute importantly to or exploits an exempt purpose



# Common Unrelated Business Activities

- Advertising
- Gaming
- Sale of merchandise and publications
- Services, such as parking



## Exceptions to UBI

- Volunteer labor
- Convenience
- Donated Goods
- Qualified trade show income
- Hospital Services
- Low Cost Items
- Mailing Lists



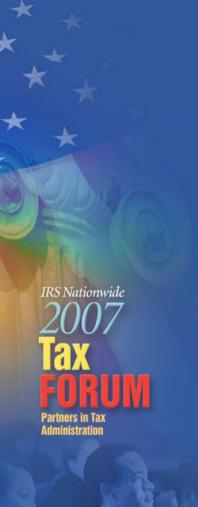
### Exceptions to UBI (continued)

- Qualified Sponsorship
  - Acknowledgement
  - No qualitative or comparative information, inducements to buy
- Traditional Bingo
  - Legal where played
  - No direct competition
  - No scratch offs or instant bingo



#### Modifications

- Passive Income
  - Dividends & Interest
  - Royalties
  - Capital gains or losses
- Research Income
  - Government sources
  - Universities & Hospitals –All sources
- Rents from Real Property



#### Debt-Financed Income

- Acquisition Indebtedness
  - Debt incurred to acquire or improve property
  - Not incurred but for acquisition
  - Reasonably foreseeable
- Taxable income
  - Ratio of average acquisition indebtedness to average annual adjusted basis



## Debt-financed Property Exceptions

- Property used in:
  - Unrelated trade or business
  - Research activities
  - Substantially related activity
- Exception Applies
  - Volunteer labor, Convenience,
    Donated goods
- Neighborhood Land Rule



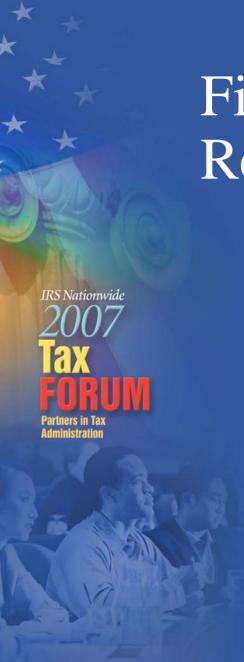
## Controlled Organizations

- Parent owns more than 50% by vote or value
- Subjects dividend, rental, royalty, and annuity income to tax
- New PPA Requirement
  - Suspended if Existing Contract Applies/Appropriately Valued



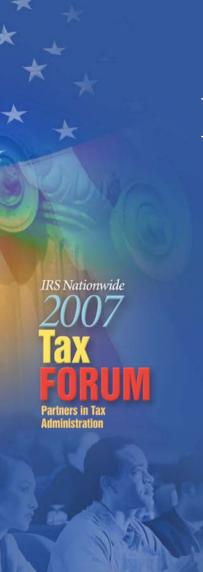
## Expenses & Deductions

- Directly Connected Expenses
- Reasonable Allocation Method
- Special Allocation Methods: Advertising & Exploitation
- Deductions
  - Net Operating Loss
  - Charitable
  - \$1000 Specific Deduction



## Filing and Disclosure Requirements

- 990-T: If UBI is \$1000 or more
- 990-W: if tax is to be \$500 or more
- PPA: 501(c)(3) organizations must disclose 990-T effective 8/17/06



#### More Information

•IRS Charities & Nonprofits Website

<u>www.irs.gov/eo</u>

- •TE/GE Customer Account Services (877) 829-5500 (toll-free)
- •Subscribe to EO Update eo-update-subscribe@lists.qai.irs.gov